

**SIMPSON COUNTY
SCHOOL DISTRICT**

FINANCIAL STATEMENTS

June 30, 2003

CONTENTS

Independent Auditors' Report	1
Required Supplementary Information:	
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	18
Statement of Activities	20
Fund Financial Statements:	
Balance Sheet — Governmental Funds	22
Reconciliation of the Governmental Funds — Balance Sheet to the Statement of Net Assets	24
Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	25
Reconciliation of the Governmental Funds — Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	27
Statement of Net Assets — Proprietary Funds	28
Statement of Revenues, Expenses and Changes in Fund Net Assets — Proprietary Funds	29
Statement of Cash Flows — Proprietary Funds	30
Statement of Fiduciary Net Assets — Fiduciary Funds	32
Notes to the Financial Statements	33

Required Supplemental Information:

Budgetary Comparison Schedule for the General Fund	57
--	----

Supplemental Information:

Combining Balance Sheet — Nonmajor Governmental Funds	60
Combining Statement of Revenues, Expenditures and Changes in Fund Balances — Nonmajor Governmental Funds	61
Statement of Net Assets — Nonmajor Proprietary Funds	62
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets — Nonmajor Proprietary Funds	63
Combining Statement of Cash Flows — Nonmajor Proprietary Funds	64
Combining Balance Sheet — All Activity Funds	65
Balance Sheet — School Activity Funds — Franklin–Simpson High School	66
Schedule of Expenditures of Federal Awards	67
Notes to the Schedule of Expenditures of Federal Awards	69
Summary Schedule of Prior Year Audit Findings	70
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	71
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control over Compliance In Accordance with OMB Circular A-133	73
Schedule of Findings and Questioned Costs	76



INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Simpson County School District** (the "District") as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 of the basic financial statements, the District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting

927 College Street — P.O. Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 — Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 — Fax: (270) 726-3155
1-888-240-7151

Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*, Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 15, 2003 on our consideration of **Simpson County School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 16 and 57 through 58 are not a required part of the basic financial statements but are supplementary information required by *Governmental Accounting Standards*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Simpson County School District's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional information shown on

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District

pages 60 through 69 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Holland CPAs, PSC

Russellville, Kentucky
September 15, 2003

Required Supplementary
Information

Management's Discussion
And Analysis



**SIMPSON COUNTY SCHOOL DISTRICT
FRANKLIN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2003**

As management of the Simpson County Public School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

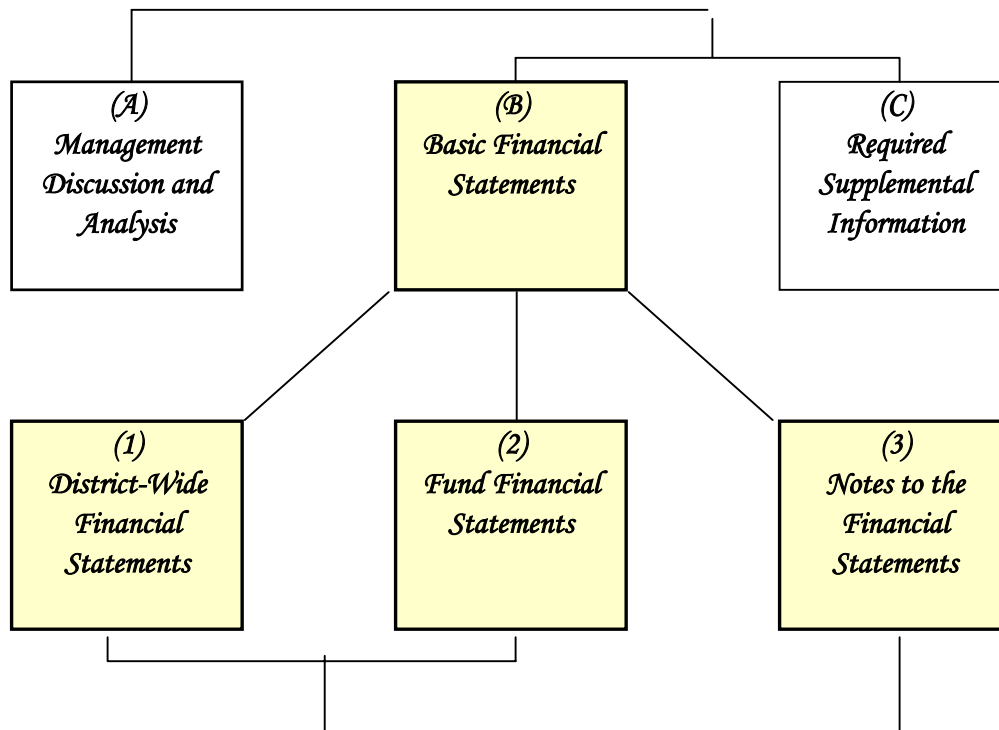
- The beginning General Fund fund balance for the District was \$2,869,426. The ending General Fund fund balance was \$3,050,313. The major reason for the increase of \$180,887 in the fund balance was the anticipation of additional State cuts due to the shortfall in the State Budget. SEEK was adjusted during the 2002-03 school year causing much concern for future cuts and conservative spending. SEEK is an acronym for Support Educational Excellence in Kentucky and is the state formula for funding schools. This adjustment was made after implementing a state mandated salary increase. The Seek base was rolled back to give an increase of .49% after we were mandated to give a 2.7% raise. This meant a reduction in SEEK revenue to the District.
- There is a noticeable difference reported between the budgetary and the actual revenue and expenditures due to a change in reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The state's contribution to our employee's health insurance and retirement (2,322,140) is included in the District's revenues and expenditures for the first time. These are recorded within the audit as "On-Behalf Payments".
- Cost of \$170,357 was expended for on-going construction projects such as a new Green House at the Career and Technical Center, soccer lights for the soccer complex, a fire alarm/intercom system at the Career and Technical Center, and a new roof for the art building at the High School.
- The 1993 Series Bonds (Additions and Renovation to Lincoln Elementary School) were refinanced, which is expected to save the District annually and reduce it's total debt service payments over the next ten years by \$124,961 and to obtain an economic gain of \$103,321.
- Funds in excess of \$100,000 were expended for additional maintenance and improvement to buildings and grounds to help maintain quality facilities.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Simpson County Public School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis, (B) the basic financial statements and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at

specific financial activities. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The Government-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the School District as a Whole

One of the most important questions asked about the School District is "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting, used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is

received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky's SEEK funding formula and its adjustments, the School District's property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the School District is divided into two distinct kinds of activities:

- **Government Activities** – Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Taxes and intergovernmental revenues also support fixed assets and related debt.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District's food service and daycare services are reported as business activities. These activities are funded through fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$9,024,993 as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding is \$5,615,989. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Reporting the School District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school Districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District

can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds and the District's flex spending account are reported as fiduciary funds. The proprietary fund consists of the school food fund and the daycare fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the District are included in the governmental funds. The major governmental funds for the Simpson County Public School District are the general fund, special revenue (grants), and building fund (FSPK).

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The proprietary fund is our food service operations and daycare program.

Fiduciary Funds – The schools' activity funds (or agency funds) and the flex spending account are the District's fiduciary fund. The fiduciary fund balances at year-end totaled \$275,217.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the period ending June 30, 2003 *

	Governmental Activities	Proprietary Business-Type Activities	Total
Current and Other Assets	\$ 4,316,914	\$ 200,685	\$ 4,517,599
Capital Assets	13,368,801	214,207	13,583,008
Total Assets	\$ 17,685,715	\$ 414,892	\$ 18,100,607
Long Term Liabilities	\$ 7,751,481	\$ 0	\$ 7,751,481
Other Liabilities (current)	1,323,375	758	1,324,133
Total Liabilities	\$ 9,074,856	\$ 758	\$ 9,075,614
Net Assets			
Investment in capital assets (net of debt)	\$ 5,401,782	\$ 214,207	\$ 5,615,989
Restricted	443,477	0	443,477
Unrestricted Fund	2,765,600	199,927	2,965,527
Total Net Assets	\$ 8,610,859	\$ 414,134	\$ 9,024,993

Note: In subsequent years, this chart will compare last year's Net Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

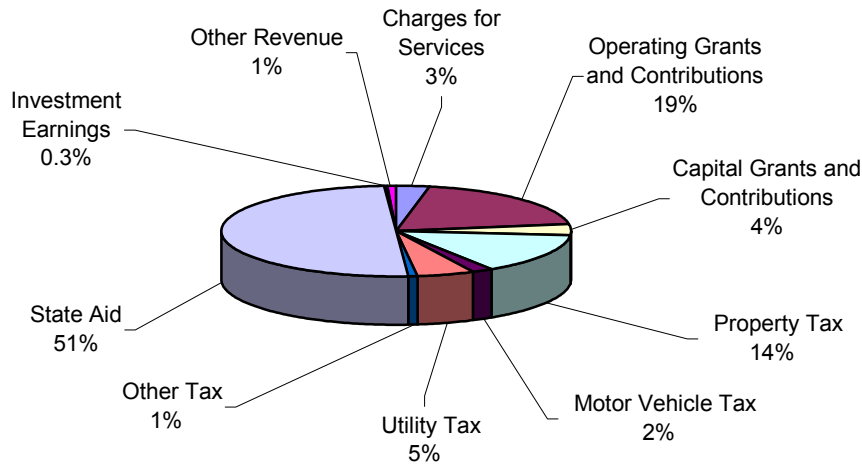
At year-end assets exceeded liabilities by \$9,024,993.

Changes in Net Assets for the period ending June 30, 2003*

	Government Activities	Proprietary Business-Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$9,000	\$652,065	\$661,065
Operating Grants and Contributions	\$3,467,126	\$662,816	\$4,129,942
Capital Grants and Contributions	\$871,930		\$871,930
General Revenue			
Taxes			
Property Tax	\$3,074,819		\$3,074,819
Motor Vehicle Tax	\$420,856		\$420,856
Utility Tax	\$1,109,782		\$1,109,782
Other Tax	\$191,484		\$191,484
State Aid	\$10,684,308		\$10,684,308
Investment Earnings	\$64,387	\$1,869	\$66,256
Other Revenue	\$169,194		\$169,194
Total Revenues			\$21,379,636

- Note: In subsequent years, this chart will compare last year's revenues to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Sources of Revenue



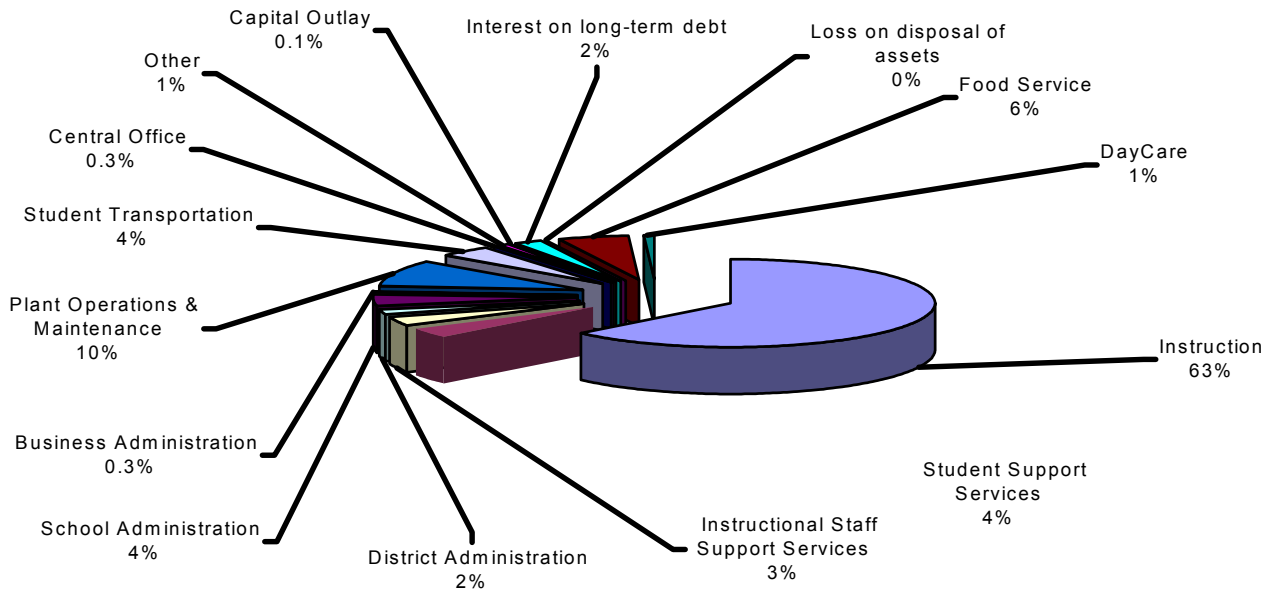
Program Expenses

Instruction	\$12,836,947
Student Support Services	\$722,819
Instructional Staff Support Services	\$703,248
District Administration	\$381,535
School Administration	\$817,381
Business Administration	\$51,667
Plant Operations & Maintenance	\$1,998,110
Student Transportation	\$853,267
Central Office	\$52,878
Other	\$143,972
Capital Outlay	\$19,520
Interest on long-term debt	\$453,133
Loss on disposal of assets	\$9,905
Food Service	\$1,126,436
DayCare	\$169,308

Total Expenses \$20,340,126

* Note: In subsequent years, this chart will compare last year's expenses to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Expenses

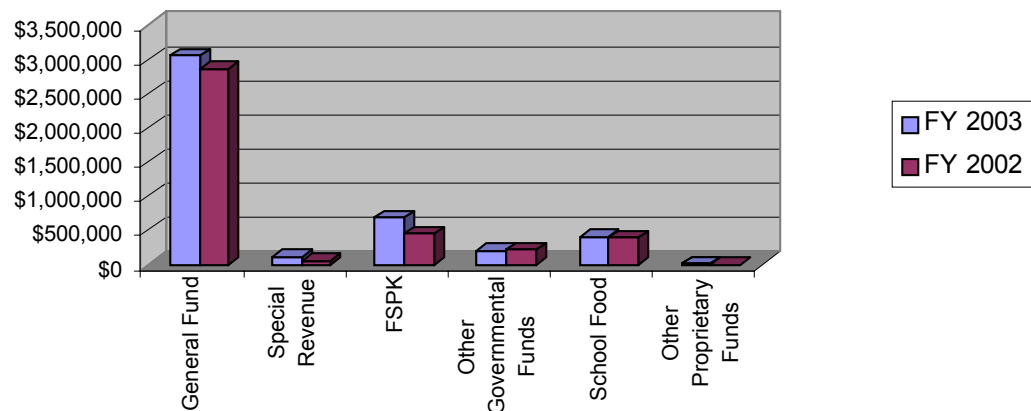


- The District's total revenues were \$21,379,636 and the total expenditures were \$20,340,126. Revenues exceeded expenditures by \$1,039,510.
- State revenues accounted for 51% and local taxes accounted for 22% of the revenue.
- Instruction was the major expense category and accounted for 63% of the total.

Financial Analysis of the District Funds

Changes in End-of-Year Fund Balances	FY 2003	FY 2002	Amount of Change	% Change
General Fund	\$3,050,313	\$2,869,426	\$180,887	6%
Special Revenue	\$107,826	\$53,685	\$54,141	50%
FSPK	\$678,747	\$444,837	\$233,910	34%
Other Governmental Funds	\$199,194	\$215,167	(\$15,973)	-8%
School Food	\$403,010	\$389,406	\$13,604	3%
Other Proprietary Funds	\$11,124	\$3,722	\$7,402	67%
Total	\$4,450,214	\$3,976,243	\$473,971	11%

Changes in Year-End Balances



- The General Fund's fund balance showed a positive change of \$180,887. This was primarily due to conservative spending recommended by the Kentucky Department of Education due to the shortfall in the state budget and the under funding of mandated laws for education.
- The Special Revenue fund had a positive change of \$54,141. The principal reason for the difference is that in FY 2002 the technology fund was transferred to the special revenue fund. The technology project reflects a fund balance because revenue was earned at the end of the fiscal year unlike the State and Federal Grants which defer revenue until it becomes earned.
- The FSPK fund showed an increase in the fund balance of \$233,910. The FSPK funds are restricted funds to be used for debt and facility improvement projects outlined by the District Facility Plan. We were in the planning stages of outlining future projects and improvements so no major construction projects were begun.
- Other Governmental funds show a decline of \$15,973. The State Legislature, due to the State Budget shortfall, allowed Districts to reimburse General Fund out of the Capital Outlay Fund for the amount of property insurance paid to help recover some of the losses to the General Fund due to state revenue reductions.
- The School Food Service fund balance had an increase of \$13,604 due to an increase in participation and conservative spending.

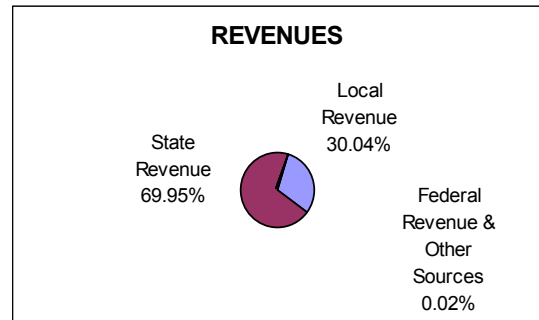
- Other Proprietary Funds which includes the District Daycare operation had an increase in funds of \$7,402 due to the acceptance of two- (2) year olds and staff adjustments.

Comments on General Fund Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2003 were \$15,274,942. This is \$2,629,411 more than was budgeted in the final working budget. The primary reason for the difference is that GAAP requires our audit to include state contributions to our employee's retirement, health and life insurance. This is referred to as "On-Behalf" revenue. The District does not get these funds directly and it is not included in our budget. However, it must be in the District's audit. This "On-Behalf" contribution was \$2,322,140 for 2002-2003. The District budgets for it's local revenues (taxes, earned interest, and tuition) in a conservative manner. Also the District budgeted according to the recommendations made by the state on being conservative due to unknown cuts that might be enacted by the Legislature. Thus, local revenues were higher than budgeted by \$227,333.
- Expenditures were also greater than budgeted primarily because of the inclusion of the in-kind state benefits mentioned above. The \$2,322,140 "On-Behalf" expenditures were spread among different functions that contained personnel costs such as instruction, support services, transportation...
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual fund balance being \$180,887 more than the prior year. The primary reason for this is conservative spending under the direction of the State Department of Education.
- District administration shows a \$1,564,544 surplus. This is where the District's contingency is budgeted. The contingency is not meant to be expended, but is required by the State Department of Education for the beginning fund balance for the next year.
- The District has a beginning fund balance for next year (\$2,984,733) greater than the budgeted contingency (\$1,091,322) primarily because our budget philosophy is to budget conservatively for revenues and liberally for expenditures to ensure that we are operating within our means especially due to the state economic conditions.
- The Final Budget (Working Budget) and the Original Budget (Draft Budget) differ primarily because the Original Budget is prepared by the end of January for the next school year prior to the adoption of the state budget. The District adopted a 4% pay raise for certified employees and classified employees in the Final Budget after the state adopted its budget.

The following tables present a summary of revenue and expense of the General Fund for the fiscal year ended June 30, 2003.

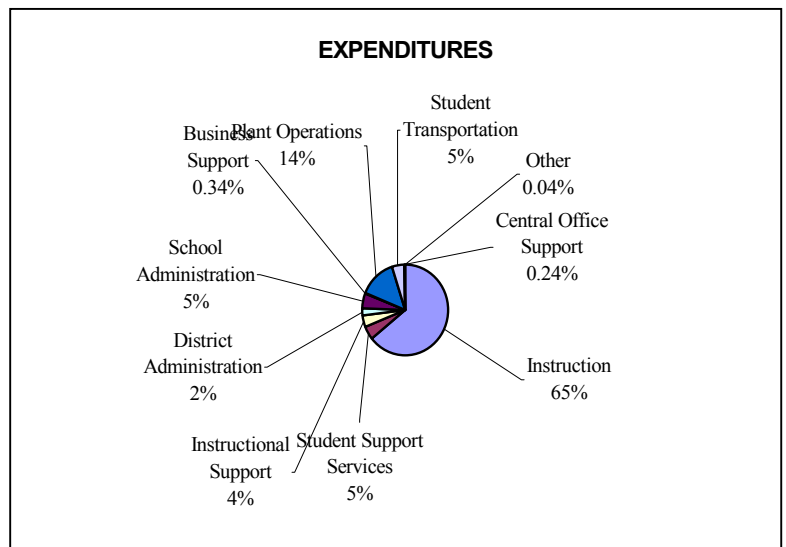
	<u>Amount</u>
Revenues:	
Local revenue sources	\$ 4,588,169
<i>Taxes</i>	
<i>Property</i>	\$ 2,626,559
<i>Motor Vehicle</i>	420,856
<i>Utilities</i>	1,109,782
<i>Other</i>	191,484
<i>Earnings on Investments</i>	63,759
<i>Other Local Revenue</i>	175,729
State Revenue sources	10,684,308
Federal Revenue	2,465
<hr/>	
Total Revenues	\$ 15,274,942



The majority of revenue was derived from state funding (69.95%) with local revenue sources making up 30.04% of total revenue.

Expenditures:	
Instruction	\$ 9,650,354
Student Support Services	707,500
Instructional Support	633,404
District Administration	357,319
School Administration	806,081
Business Support	51,667
Plant Operations	2,062,377
Student Transportation	721,221
Central Office Support	36,257
Other	6,658
Total expenditures	\$ 15,032,838

Expenditures in Excess of Revenues \$ 242,104 *



* The District was mandated by the Kentucky Department of Education to give a 2.7% salary increase with only a 49% increase in SEEK funding. Conservative spending was used due to anticipated cuts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2003, the District had invested \$23,650,492 in Capital Assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices.

SUMMARY OF CAPITAL ASSETS *

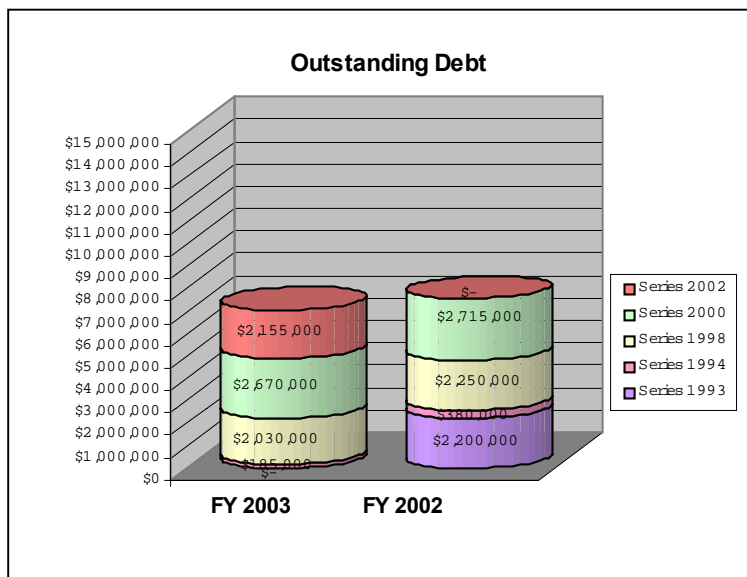
	Governmental Activities	Business-Type Activities	Total
Land	\$ 1,838,087	\$ 0	\$ 1,838,087
Buildings	16,313,554	0	16,313,554
Equipment and Furniture	3,184,234	444,850	3,629,084
Vehicles	1,869,767	0	1,869,767
Total Assets	\$ 23,205,642	\$ 444,850	\$ 23,650,492

* Note: In subsequent years, this chart will compare last year's Capital Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Long-Term Debt

At year-end the District had \$7.0 million in general obligation bonds outstanding. This was a decrease of 6.7% over last year. The decrease was due to the advance refunding of Bond 1993 for a saving of \$124,961 over the next ten years and to obtain an economic gain of \$103,321 and scheduled debt service payments of \$635,000.

Outstanding Debt at Year End



		Governmental Activities 2003	Governmental Activities 2002
General Obligation Bonds:			
Series 1993	Additions/Renovations- Lincoln Elementary School	0	\$2,200,000
Series 1994	Refunding of 1978 Issue Construction-Simpson Elem	\$185,000	\$380,000
Series 1998	Refunding of 1988 & 1991 Issues—Additions to Simpson, Lincoln, and Middle School	\$2,030,000	\$2,250,000
Series 2000	Renovations for Simpson Elementary, FS High School, and the Career Technical Center	\$2,670,000	\$2,715,000
Series 2002	Refunding of 1993 Issue (additions and Renovation to Lincoln Elementary)	\$2,155,000	0
TOTAL		\$7,040,000	\$7,545,000

BUDGETARY IMPLICATIONS

It is extremely important that the District continue to budget very conservatively. The District receives approximately 51% of its new general fund revenue each year through the state funding formula (SEEK). Last year there was an adjustment that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not receive the revenue from taxing sources, an adjustment will be made to the funding formula. The District should always be prepared for such reductions in funding.

Approximately 22% of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the District until the sixth-eighth months of the school year. This means the general fund's beginning fund balance must be used to absorb much of the first five months of expenditures in the school year. Provisions must always be made to have a significant fund beginning balance to start each year. The District has an ending fund balance of \$3,050,313 or 19.82% of the total budget as a beginning balance for next year.

By law the budget must have a minimum 2% contingency, but it is recommended that a higher contingency be maintained. The District adopted a budget with \$1,893,411 in contingency (8.93 %). The beginning fund balance for beginning the fiscal year is \$3,050,313. Significant Board action that impacts the finances include a \$1,080 or 3 % pay raise (whichever is highest) for all certified employees, 3% increase for classified employees, and general fund matching dollars for state and federal grants. The District currently participates in twenty-seven federal and state grants. The total budget for these grants is \$3,174,909. Many of these grants are funded on a reimbursement basis. This requires the District to pay the expenses of the grant and then apply for reimbursement. At year-end, the District's General Fund was due \$416,800 from other funds. The District must continue to monitor the grants constantly and get reimbursements in a timely manner. The District must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements. Also, additional contingency is required due to the age of the District's buildings where unanticipated major repairs could arise to maintain up-to-date facilities and a good learning environment for all students. Simpson County Schools has made a continuous effort to increase pay raises above the state minimum requirement to compete more with surrounding Districts in attracting the best and talented educators.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for Simpson County Schools are to continue increasing student achievement toward our goal of proficiency for all schools by 2014, to attract and retain the best educators available, to provide modern/well-maintained facilities, and improve the average daily attendance count.

All Simpson County Schools made improvements in the 2003 CATS assessment given last spring and are categorized as progressing toward their performance goals. The overall District accountability index is 74.2, up from 71.9 last year. Gains were made District-wide in math, arts & humanities and practical living/vocational studies. The District saw a reduction in the percent novice performers, 21.79% down from 24.81%. However, we cannot simply rest on our laurels in a system of continuous improvement. As a District, we must average 80.6 in 2004 in order to meet our performance goals for 2004. It is critical we evaluate and plan very wisely and make informed decisions about the best way to apply limited dollars that will bring about improved student learning.

It is essential to our mission to attract and retain the very best educators available in order to enhance the instructional program for all students. This requires competitive salaries/benefits and up-to-date resources and facilities.

Our District facilities plan calls for about \$28 million in facility improvements. We currently have between \$7 million and \$8 million in bond potential. Our most pressing needs are renovations and/or additions of existing facilities at Franklin Elementary School, Simpson Elementary School and Franklin-Simpson Middle School. These renovations include additional classrooms and a new cafeteria at Franklin-Simpson Middle School; cafeteria expansion, HVAC and roofing improvements at Simpson Elementary; front facade, HVAC, interior finishes and roofing improvements at Franklin Elementary; and Science Lab renovations at Franklin-Simpson High School. Though these improvements will be a tremendous boost to our schools, it represents only a portion of our total needs. Adhering to the facilities plan is essential in providing quality buildings and excellent learning environments for our students.

Another District challenge mentioned is improving the average daily attendance count. The District receives funding through the SEEK formula based on this count. It is vital that our schools have high attendance percentages and that parents and students continue to choose Simpson County Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing this District challenge.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, inquiries should be directed to Jim Flynn, Superintendent or Linda Travelstead, Director of Financial Services (270) 586-8877, 430 South College St., Franklin, KY, 42134.

Basic Financial Statements

SIMPSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2003

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 3,763,662	\$ 164,320	\$ 3,927,982
Accounts receivable:			
Taxes	132,301	0	132,301
Accounts	1,229	2,318	3,547
Intergovernmental – state	17,910	0	17,910
Intergovernmental – federal	400,008	0	400,008
Prepays	1,804	0	1,804
Inventory	0	34,047	34,047
Non-depreciated capital assets	575,338	0	575,338
Depreciable capital assets	22,630,304	444,850	23,075,154
Less: accumulated depreciation	(9,836,841)	(230,643)	(10,067,484)
TOTAL ASSETS	17,685,715	414,892	18,100,607
LIABILITIES			
Accounts payable	174,154	758	174,912
Deferred revenue	106,680	0	106,680
Long-term obligations:			
Due within one year:			
Outstanding bonds	665,000	0	665,000
Other	201,633	0	201,633
Accrued interest	75,908	0	75,908
Compensated absences	100,000	0	100,000
Due beyond one year:			
Outstanding bonds	6,375,000	0	6,375,000
Other	725,386	0	725,386
Compensated absences	651,095	0	651,095
TOTAL LIABILITIES	9,074,856	758	9,075,614

See accompanying notes to the financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt . . .	5,401,782	214,207	5,615,989
Restricted for:			
SFCC	443,477	0	443,477
Unrestricted	2,765,600	199,927	2,965,527
TOTAL NET ASSETS	\$ 8,610,859	\$ 414,134	\$ 9,024,993

See accompanying notes to the financial statements.

SIMPSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 12,836,947	\$ 0	\$ 3,143,409	\$ 62,520	\$ (9,631,018)	\$ 0	\$ (9,631,018)
Support Services:							
Student	722,819	0	15,319	0	(707,500)	0	(707,500)
Instructional staff	703,248	0	68,322	0	(634,926)	0	(634,926)
District administration	381,535	0	0	0	(381,535)	0	(381,535)
School administration	817,381	0	0	0	(817,381)	0	(817,381)
Business	51,667	0	0	0	(51,667)	0	(51,667)
Plant operations and maintenance	1,998,110	9,000	0	0	(1,989,110)	0	(1,989,110)
Student transportation	853,267	0	37,519	0	(815,748)	0	(815,748)
Central office	52,878	0	15,483	0	(37,395)	0	(37,395)
Other	143,972	0	137,074	0	(6,898)	0	(6,898)
Capital outlay	19,520	0	50,000	556,857	587,337	0	587,337
Interest on long-term debt	453,133	0	0	252,553	(200,580)	0	(200,580)
Loss on disposal of assets	9,905	0	0	0	(9,905)	0	(9,905)
TOTAL GOVERNMENTAL ACTIVITIES	19,044,382	9,000	3,467,126	871,930	(14,696,326)	0	(14,696,326)

See accompanying notes to the financial statements.

BUSINESS-TYPE ACTIVITIES

Food services	1,126,436	475,355	662,816	0	0	11,735	11,735
Other	169,308	176,710	0	0	0	7,402	7,402
TOTAL BUSINESS-TYPE ACTIVITIES	1,295,744	652,065	662,816	0	0	19,137	19,137
TOTAL SCHOOL DISTRICT	\$ 20,340,126	\$ 661,065	\$ 4,129,942	\$ 871,930	(14,696,326)	19,137	(14,677,189)

GENERAL REVENUES

Taxes:

Property	3,074,819	0	3,074,819
Motor vehicle	420,856	0	420,856
Utilities	1,109,782	0	1,109,782
Other	191,484	0	191,484
State aid	10,684,308	0	10,684,308
Investment earnings	64,387	1,869	66,256
Other	169,194	0	169,194

TOTAL GENERAL REVENUES

15,714,830	1,869	15,716,699
------------	-------	------------

CHANGE IN NET ASSETS	1,018,504	21,006	1,039,510
-----------------------------	-----------	--------	-----------

NET ASSETS – BEGINNING	7,592,355	393,128	7,985,483
-------------------------------	-----------	---------	-----------

NET ASSETS – ENDING	\$ 8,610,859	\$ 414,134	\$ 9,024,993
----------------------------	---------------------	-------------------	---------------------

See accompanying notes to the financial statements.

SIMPSON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	FSPK FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash	\$ 2,621,736	\$ 263,985	\$ 678,747	\$ 199,194	\$ 3,763,662
Accounts receivable:					
Taxes	132,301	0	0	0	132,301
Accounts	1,229	0	0	0	1,229
Intergovernmental – state	1,028	16,882	0	0	17,910
Intergovernmental – federal	0	400,008	0	0	400,008
Due from other funds	416,890	0	0	0	416,890
Prepays	1,804	0	0	0	1,804
TOTAL ASSETS	\$ 3,174,988	\$ 680,875	\$ 678,747	\$ 199,194	\$ 4,733,804

See accompanying notes to the financial statements.

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 124,675	\$ 49,479	\$ 0	\$ 0	\$ 174,154
Due to other funds	0	416,890	0	0	416,890
Deferred revenue	0	106,680	0	0	106,680
TOTAL LIABILITIES	124,675	573,049	0	0	697,724

FUND BALANCES

Reserved for:

Site based carryforward	4,674	0	0	0	4,674
SFCC	0	0	293,793	149,684	443,477
Compensated absences	65,580	0	0	0	65,580
Unreserved	2,980,059	107,826	384,954	49,510	3,522,349
TOTAL FUND BALANCES	3,050,313	107,826	678,747	199,194	4,036,080

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 3,174,988	\$ 680,875	\$ 678,747	\$ 199,194	\$ 4,733,804
---------------------	-------------------	-------------------	-------------------	---------------------

**SIMPSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2003**

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 4,036,080

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds. The cost of the
assets is \$23,205,642, and the accumulated depreciation is \$9,836,841. 13,368,801

Long-term liabilities, including bonds payable, are not due and payable in the
current period and therefore are not reported as liabilities in the funds. Long-term
liabilities at year-end consist of:

Bonds payable	(7,040,000)
Accrued interest of the bonds	(75,908)
Other debt	(927,019)
Compensated absences	<u>(751,095)</u>

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES **\$ 8,610,859**

See accompanying notes to the financial statements.

SIMPSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	FSPK FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
From local sources:					
Taxes:					
Property	\$ 2,626,559	\$ 0	\$ 448,260	\$ 0	\$ 3,074,819
Motor vehicle	420,856	0	0	0	420,856
Utilities	1,109,782	0	0	0	1,109,782
Other	191,484	0	0	0	191,484
Tuition and fees	0	105	0	0	105
Earnings on investments	63,759	1,304	0	628	65,691
Other local revenue	175,729	106,803	0	0	282,532
Intergovernmental – state	10,684,308	1,382,003	287,027	522,383	12,875,721
Intergovernmental – indirect federal	2,465	2,039,431	0	0	2,041,896
TOTAL REVENUES	15,274,942	3,529,646	735,287	523,011	20,062,886
EXPENDITURES					
Current:					
Instruction	9,650,354	3,213,005	0	0	12,863,359
Support services:					
Student	707,500	15,319	0	0	722,819
Instructional staff	633,404	68,322	0	0	701,726
District administration	357,319	0	0	0	357,319

See accompanying notes to the financial statements.

School administration	806,081	0	0	0	806,081
Business	51,667	0	0	0	51,667
Plant operations and maintenance	2,062,377	0	0	43,421	2,105,798
Student transportation	721,221	37,519	0	0	758,740
Central office	36,257	15,483	0	0	51,740
Other	6,658	137,074	0	0	143,732
Facilities acquisition and construction	0	50,000	19,520	0	69,520
Debt service:					
Principal	0	0	0	635,000	635,000
Interest	0	0	0	343,586	343,586
Bond issuance costs	0	0	0	26,200	26,200
TOTAL EXPENDITURES	15,032,838	3,536,722	19,520	1,048,207	19,637,287
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	242,104	(7,076)	715,767	(525,196)	425,599
OTHER FINANCING SOURCES (USES)					
Bond proceeds	0	0	0	2,159,366	2,159,366
Payment to refund bond escrow agent	0	0	0	(2,132,000)	(2,132,000)
Operating transfers	(61,217)	61,217	(481,857)	481,857	0
TOTAL OTHER FINANCING SOURCES (USES)	(61,217)	61,217	(481,857)	509,223	27,366
NET CHANGE IN FUND BALANCE	180,887	54,141	233,910	(15,973)	452,965
FUND BALANCE – BEGINNING	2,869,426	53,685	444,837	215,167	3,583,115
FUND BALANCE – ENDING	\$ 3,050,313	\$ 107,826	\$ 678,747	\$ 199,194	\$ 4,036,080

See accompanying notes to the financial statements.

**SIMPSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003**

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$	452,965
---	-----------	----------------

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$859,166) exceeds capital outlays (\$447,579) in the period.		(411,587)
--	--	-----------

Repayment of bond principal and other debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,102,121
--	--	-----------

In the statement of activities, certain operating expenses - compensated absences (sick pay and vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an addition to the reconciliation.		(4,376)
---	--	---------

Net loss on disposal of assets shown in the statement of activities not shown on the governmental funds.		(9,905)
---	--	---------

In the statement of activities, certain costs associated with refunding of bonds is shown as an expense whereas on the governmental funds they are not shown		(130,001)
--	--	-----------

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of accrued interest on bonds		19,287
--	--	--------

CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	\$	<u>1,018,504</u>
---	-----------	-------------------------

See accompanying notes to the financial statements.

SIMPSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003

	ENTERPRISE FUND FOOD SERVICE	OTHER PROPRIETARY FUNDS	TOTAL
ASSETS			
CURRENT ASSETS			
Cash	\$ 156,380	\$ 7,940	\$ 164,320
Accounts receivable:			
Accounts	0	2,318	2,318
Inventory	34,047	0	34,047
TOTAL CURRENT ASSETS	190,427	10,258	200,685
NON-CURRENT ASSETS			
Fixed assets – net	212,622	1,585	214,207
TOTAL ASSETS	\$ 403,049	\$ 11,843	\$ 414,892
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 39	\$ 719	\$ 758
TOTAL CURRENT LIABILITIES	39	719	758
NET ASSETS			
Invested in capital assets	212,622	1,585	214,207
Unrestricted	190,388	9,539	199,927
TOTAL NET ASSETS	403,010	11,124	414,134
TOTAL LIABILITIES AND NET ASSETS	\$ 403,049	\$ 11,843	\$ 414,892

See accompanying notes to the financial statements.

SIMPSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE	OTHER PROPRIETARY FUNDS	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 475,355	\$ 0	\$ 475,355
Tuition and fees	0	176,710	176,710
TOTAL OPERATING REVENUES	475,355	176,710	652,065
OPERATING EXPENSES			
Instructional	0	4,057	4,057
Salaries and wages	562,077	0	562,077
Contract services	19,356	0	19,356
Materials and supplies	514,348	0	514,348
Other operating expenses	3,234	163,341	166,575
Depreciation expense	27,421	1,910	29,331
TOTAL OPERATING EXPENSES	1,126,436	169,308	1,295,744
OPERATING INCOME (LOSS)	(651,081)	7,402	(643,679)
NON-OPERATING REVENUES (EXPENSES)			
State operating grants	114,140	0	114,140
Federal operating grants	472,727	0	472,727
Donated commodities	75,949	0	75,949
Interest revenue	1,869	0	1,869
TOTAL NON-OPERATING REVENUES (EXPENSES)	664,685	0	664,685
CHANGE IN NET ASSETS	13,604	7,402	21,006
TOTAL NET ASSETS – BEGINNING	389,406	3,722	393,128
TOTAL NET ASSETS – ENDING	\$ 403,010	\$ 11,124	\$ 414,134

See accompanying notes to the financial statements.

SIMPSON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE	OTHER PROPRIETARY FUNDS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	\$ 475,355	\$ 176,710	\$ 652,065
Cash payments to employees for services	(562,077)	0	(562,077)
Cash payments for contract services	(19,356)	0	(19,356)
Cash payments to suppliers for goods and services	(461,323)	(6,378)	(467,701)
Cash payments in other operating expenses	(3,234)	(163,341)	(166,575)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(570,635)</u>	<u>6,991</u>	<u>(563,644)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating grants received	586,867	0	586,867
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>586,867</u>	<u>0</u>	<u>586,867</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	1,869	0	1,869
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,869</u>	<u>0</u>	<u>1,869</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,101	6,991	25,092
CASH AND CASH EQUIVALENTS – BEGINNING	<u>138,279</u>	<u>949</u>	<u>139,228</u>
CASH AND CASH EQUIVALENTS – ENDING	<u><u>\$ 156,380</u></u>	<u><u>\$ 7,940</u></u>	<u><u>\$ 164,320</u></u>

See accompanying notes to the financial statements.

	ENTERPRISE FUND FOOD SERVICE	OTHER PROPRIETARY FUNDS	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ (651,081)	\$ 7,402	\$ (643,679)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	27,421	1,910	29,331
Commodities used	75,949	0	75,949
Changes in assets and liabilities:			
Receivables	0	(2,318)	(2,318)
Inventories	(2,754)	0	(2,754)
Accounts payable	(1,677)	(3)	(1,680)
Deferred revenue	(18,493)	0	(18,493)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (570,635)	\$ 6,991	\$ (563,644)

See accompanying notes to the financial statements.

SIMPSON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

	<u>AGENCY FUNDS</u>
ASSETS	
ASSETS	
Cash	\$ 275,217
TOTAL ASSETS	<u>\$ 275,217</u>
LIABILITIES	
LIABILITIES	
Accounts payable	\$ 8,203
Flexible spending account	107,519
Due to student groups	<u>159,495</u>
TOTAL LIABILITIES	<u>\$ 275,217</u>

See accompanying notes to the financial statements.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
 POLICIES**

● **Reporting Entity**

The Simpson County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Simpson County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Simpson County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Simpson County School District Finance Corporation — The Simpson County Board of Education resolved to authorize the establishment of the Simpson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Simpson County Board of Education also comprise the Corporation's Board of Directors.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

• **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan. The FSPK Fund is a major fund.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, as required by Kentucky law.

• Proprietary Fund Types

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The *Community Education Fund* is used to account for local community education activities.

The *Day Care Fund* is used to account for day care services offered to the general public.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

• **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District in a trustees capacity or as an agent on behalf of others.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund and Capital Projects Funds.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Cash and Cash Equivalents**

The District considers demand deposits, money market funds and other highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

● **Investments**

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Estimated Lives
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the Government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

● **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

● **Investment Income**

Assets earning investment income in the Special Revenue Fund, FSPK Building Fund and SEEK Capital Outlay Fund have assigned their investment earnings to the General Fund. The amount of investment income the General Fund received from this assignment was \$12,830 for the year ended June 30, 2003.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE**

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (GASB 34). Statement No. 34 makes significant changes in financial reporting. Subsequent to the issuance of GASB 34, GASB issued the following standards to be implemented at the same time GASB 34 is adopted; Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The District has implemented these standards effective July 1, 2002.

Statement No. 34, among other changes, adds two new "Government-Wide" (District-Wide) financial statements as basic financial statements required for all governmental units. The Statement of Net assets and the Statement of Activities are the two new required statements. Both statements are prepared on the full accrual basis. The government-wide financial statements split the District's programs between business-type and governmental activities. Previously, in accordance with accounting standards for governmental units, the District used the modified accrual basis of accounting for certain funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity fund financial statements.

In addition, all funds are reported as governmental, proprietary or fiduciary funds. The definitions for these types of activities are discussed in other portions of Note 1.

Finally, all non-fiduciary funds are further classified as major or non-major funds. In reporting financial condition and results of operations for governmental units, the new standard concentrates on major funds versus non-major funds.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE (Continued)**

The restatement of the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	General	Special Revenue	FSPK	Nonmajor	Total
Fund equity, June 30, 2002	\$ 2,869,426	\$ 53,685	\$ 444,837	\$ 215,167	\$ 3,583,115
GASB 34 adjustments:					
Capital assets, net of depreciation					13,380,392
Long-term liabilities					(8,529,238)
Accrued compensated absences					(746,719)
Accrued interest payable					(95,195)
					<u><u>\$ 7,592,355</u></u>

The District had a fixed asset inventory taken to comply with GASB 34. This inventory revealed a difference in the proprietary fixed assets that was previously recorded. Changes as a result of the GASB 34 implementation are as follows:

	School Food Service	Nonmajor	Total
Fund equity, June 30, 2002	\$ 348,279	\$ 227	\$ 348,506
Change in fixed assets	41,127	3,495	44,622
Adjusted Fund Equity, June 30, 2002	<u><u>\$ 389,406</u></u>	<u><u>\$ 3,722</u></u>	<u><u>\$ 393,128</u></u>

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 3: CASH

● **Deposits**

At June 30, 2003, the carrying amounts of the District's deposits were \$4,203,199 and the bank balances were \$5,872,602. Of the bank balance, \$5,420,492 was covered by federal depository insurance or by collateral held by the banks in the District's name and \$452,110 was uninsured and uncollateralized.

The carrying amounts are reflected in the financial statements as follows:

Governmental funds	\$ 3,763,662
Proprietary funds	164,320
Fiduciary funds	<u>275,217</u>
	<u><u>\$ 4,203,199</u></u>

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2003 consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue	<u><u>\$ 416,890</u></u>

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 404,981	\$ 0	\$ 0	\$ 404,981
Construction in progress	0	170,357	0	170,357
Total Nondepreciable Historical Cost	404,981	170,357	0	575,338
Capital assets that are depreciated:				
Land improvements	1,416,356	16,750	0	1,433,106
Buildings and improvements	16,143,197	0	0	16,143,197
Technology equipment	1,789,699	367,706	(171,429)	1,985,976
Vehicles	1,688,810	180,957	0	1,869,767
General	1,093,423	121,710	(16,875)	1,198,258
Total Depreciable Historical Cost	22,131,485	687,123	(188,304)	22,630,304
Less accumulated depreciation for:				
Land improvements	539,993	62,787	0	602,780
Buildings and improvements	5,598,819	354,807	0	5,953,626
Technology equipment and general	1,872,037	323,108	(178,399)	2,016,746
Vehicles	1,145,225	118,464	0	1,263,689
Total Accumulated Depreciation	9,156,074	859,166	(178,399)	9,836,841
Total Depreciable Historical Cost, Net	12,975,411	(172,043)	(9,905)	12,793,463
Governmental Activities, Capital Assets, Net	\$ 13,380,392	\$ (1,686)	\$ (9,905)	\$ 13,368,801

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS (Continued)

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Technology equipment	\$ 48,214	\$ 0	\$ (1,793)	\$ 46,421
General	398,429	0	0	398,429
Total Depreciable Historical Cost	446,643	0	(1,793)	444,850
Less accumulated depreciation for:				
Technology equipment and general	203,104	29,332	(1,793)	230,643
Total Accumulated Depreciation	203,104	29,332	(1,793)	230,643
Total Depreciable Historical Cost, Net	243,539	(29,332)	0	214,207
Business-Type Activities, Capital Assets, Net	\$ 243,539	\$ (29,332)	\$ 0	\$ 214,207

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 708,275
Support services:	
Instructional staff	1,522
District administration	24,216
School administration	11,300
Plant operations and maintenance	6,625
Student transportation	105,850
Central office	1,138
Other	240
Total Depreciation Expense	\$ 859,166

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1994	\$ 1,840,000	3.70%—3.75%
1998	2,655,000	4.20%—4.60%
2000	2,800,000	4.75%—5.50%
2002	2,180,000	1.75%—3.90%

On November 1, 2002, the District issued \$2,180,000 in general obligation bonds with interest rates ranging from 1.75% to 3.90% to partially advance refund \$2,050,000 of outstanding 1993 bonds with interest rates ranging from 4.80% to 5.50%. The net proceeds of \$2,132,000 were used to purchase U.S. government securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 bonds. As a result, \$2,050,000 of the 1993 bond issue is considered defeased and the liability has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt by \$41,000. This difference reported in the accompanying financial statements is charged to operations. The District completed the advance refunding to reduce its total debt service payments over the next ten years by \$124,961 and to obtain an economic gain of \$103,321.

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Simpson County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS
(Continued)

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

Year	Simpson County School District		School Facility Construction Commission		Total Debt Service
	Principal	Interest	Principal	Interest	
2003—2004	\$ 509,573	\$ 204,769	\$ 155,427	\$ 96,940	\$ 966,709
2004—2005	348,183	190,898	161,817	90,519	791,417
2005—2006	361,462	178,854	168,538	83,765	792,619
2006—2007	369,247	165,707	175,753	76,513	787,220
2007—2008	386,574	151,386	183,426	68,799	790,185
2008—2009	400,905	135,817	174,095	60,548	771,365
2009—2010	412,709	118,793	147,291	52,609	731,402
2010—2011	428,316	101,528	166,684	45,721	742,249
2011—2012	335,523	83,314	79,477	37,908	536,222
2012—2013	351,166	68,866	88,834	34,103	542,969
2013—2014	132,213	58,482	67,787	30,308	288,790
2014—2015	138,688	51,608	71,312	26,782	288,390
2015—2016	144,874	44,188	75,126	22,968	287,156
2016—2017	145,817	36,364	79,183	18,910	280,274
2017—2018	161,462	28,344	83,538	14,556	287,900
2018—2019	171,866	19,464	88,134	9,962	289,426
2019—2020	182,019	10,012	92,981	5,114	290,126
	<u>\$ 4,980,597</u>	<u>\$ 1,648,394</u>	<u>\$ 2,059,403</u>	<u>\$ 776,025</u>	<u>\$ 9,464,419</u>

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS
(Continued)

Changes in long-term obligations are as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003	Amounts Due Within One Year
District debt:					
Compensated absences	\$ 746,719	\$ 118,304	\$ 113,928	\$ 751,095	\$ 100,000
Bonds	7,545,000	2,180,000	2,685,000	7,040,000	665,000
Other	984,238	409,902	467,121	927,019	201,633
	<u>\$ 9,275,957</u>	<u>\$ 2,708,206</u>	<u>\$ 3,266,049</u>	<u>\$ 8,718,114</u>	<u>\$ 966,633</u>

NOTE 7: PENSION PLANS

Plan Descriptions. The Simpson County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 7: PENSION PLANS (Continued)

Funding Policy. KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 6.34% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2003, 2002 and 2001 were \$187,263, \$185,183 and \$195,768, respectively, equal to the required contributions for each year.

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2003 was \$2,322,140 for the governmental funds and \$98,388 for propriety funds.

NOTE 8: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 9: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 11: EXCESS EXPENDITURES OVER
 APPROPRIATIONS**

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

<u>Fund</u>	<u>Amount</u>
Capital Outlay	\$ 16,601

NOTE 12: FUND TRANSFERS

Fund transfers for the year ended June 30, 2003 consist of the following:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 61,217
Operating	Capital Outlay	Debt Service	Debt Service	243,010
Operating	FSPK	Debt Service	Debt Service	481,857

Required Supplemental
Information

SIMPSON COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2003

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local	\$ 4,123,986	\$ 4,360,836	\$ 4,588,169	\$ 227,333
State programs	8,078,312	8,282,695	10,684,308	2,401,613
Federal programs	2,000	2,000	2,465	465
TOTAL REVENUES	12,204,298	12,645,531	15,274,942	2,629,411
EXPENDITURES				
Current:				
Instruction	8,162,598	8,161,418	9,650,354	(1,488,936)
Support services:				
Student	622,938	626,297	707,500	(81,203)
Instructional staff	568,901	561,778	633,404	(71,626)
District administration	1,439,310	1,921,863	357,319	1,564,544
School administration	724,645	682,352	806,081	(123,729)
Business	70,986	70,986	51,667	19,319
Plant operations and maintenance	2,178,231	2,238,686	2,062,377	176,309
Student transportation	823,272	821,985	721,221	100,764
Central office	46,103	46,103	36,257	9,846
Other	6,692	6,692	6,658	34
Facilities acquisition and construction	200,000	250,000	0	250,000
TOTAL EXPENDITURES	14,843,676	15,388,160	15,032,838	355,322

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,639,378)</u>	<u>(2,742,629)</u>	<u>242,104</u>	<u>2,984,733</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers	<u>(61,217)</u>	<u>(61,217)</u>	<u>(61,217)</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(61,217)</u>	<u>(61,217)</u>	<u>(61,217)</u>	<u>0</u>
NET CHANGE IN FUND BALANCE	<u>(2,700,595)</u>	<u>(2,803,846)</u>	<u>180,887</u>	<u>2,984,733</u>
FUND BALANCES – BEGINNING	<u>2,700,595</u>	<u>2,803,846</u>	<u>2,869,426</u>	<u>65,580</u>
FUND BALANCES – ENDING	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 3,050,313</u></u>	<u><u>\$ 3,050,313</u></u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

Actual amounts (budgetary basis)	12,952,802
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts	<u>2,322,140</u>

Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds

\$ 15,274,942

Outflows/expenses:

Actual amounts (budgetary basis)	\$ 12,710,698
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts	<u>2,322,140</u>

Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds

\$ 15,032,838

Supplemental Information

SIMPSON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2003

	DEBT SERVICE	SEEK FUND	CONSTRUCTION FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS				
Cash	\$ 0	\$ 149,684	\$ 49,510	\$ 199,194
TOTAL ASSETS	\$ 0	\$ 149,684	\$ 49,510	\$ 199,194
LIABILITIES AND FUND BALANCES				
LIABILITIES	\$ 0	\$ 0	\$ 0	\$ 0
FUND BALANCES				
Reserved for:				
SFCC	0	149,684	0	149,684
Unreserved	0	0	49,510	49,510
TOTAL FUND BALANCES	0	149,684	49,510	199,194
TOTAL LIABILITIES AND FUND BALANCES	\$ 0	\$ 149,684	\$ 49,510	\$ 199,194

SIMPSON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	DEBT SERVICE	SEEK FUND	CONSTRUCTION FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES				
From local sources:				
Earnings on investments	\$ 0	\$ 0	\$ 628	\$ 628
Intergovernmental — state	252,553	269,830	0	522,383
TOTAL REVENUES	<u>252,553</u>	<u>269,830</u>	<u>628</u>	<u>523,011</u>
EXPENDITURES				
Current:				
Support services:				
Plant operations and maintenance	0	43,421	0	43,421
Debt service:				
Principal	635,000	0	0	635,000
Interest	343,586	0	0	343,586
Bond issuance costs	26,200	0	0	26,200
TOTAL EXPENDITURES	<u>1,004,786</u>	<u>43,421</u>	<u>0</u>	<u>1,048,207</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(752,233)</u>	<u>226,409</u>	<u>628</u>	<u>(525,196)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	2,159,366	0	0	2,159,366
Payment to refund bond agent	(2,132,000)	0	0	(2,132,000)
Operating transfers	724,867	(243,010)	0	481,857
TOTAL OTHER FINANCING SOURCES (USES)	<u>752,233</u>	<u>(243,010)</u>	<u>0</u>	<u>509,223</u>
NET CHANGE IN FUND BALANCE	<u>0</u>	<u>(16,601)</u>	<u>628</u>	<u>(15,973)</u>
FUND BALANCE — BEGINNING	<u>0</u>	<u>166,285</u>	<u>48,882</u>	<u>215,167</u>
FUND BALANCE — ENDING	<u><u>\$ 0</u></u>	<u><u>\$ 149,684</u></u>	<u><u>\$ 49,510</u></u>	<u><u>\$ 199,194</u></u>

SIMPSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
June 30, 2003

	<u>COMMUNITY EDUCATION</u>	<u>DAY CARE</u>	<u>TOTAL OTHER PROPRIETARY FUNDS</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 227	\$ 7,713	\$ 7,940
Accounts receivable:			
Accounts	0	2,318	2,318
TOTAL CURRENT ASSETS	<u>227</u>	<u>10,031</u>	<u>10,258</u>
NONCURRENT ASSETS			
Fixed assets — net	0	1,585	1,585
TOTAL ASSETS	<u><u>\$ 227</u></u>	<u><u>\$ 11,616</u></u>	<u><u>\$ 11,843</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 0	\$ 719	\$ 719
TOTAL CURRENT LIABILITIES	<u>0</u>	<u>719</u>	<u>719</u>
NET ASSETS			
Invested in capital assets	0	1,585	1,585
Unrestricted	227	9,312	9,539
TOTAL NET ASSETS	<u>227</u>	<u>10,897</u>	<u>11,124</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 227</u></u>	<u><u>\$ 11,616</u></u>	<u><u>\$ 11,843</u></u>

SIMPSON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	COMMUNITY EDUCATION	DAY CARE	TOTAL OTHER PROPRIETARY FUNDS
OPERATING REVENUES			
Tuition and fees	\$ 4,057	\$ 172,653	\$ 176,710
TOTAL OPERATING REVENUES	<u>4,057</u>	<u>172,653</u>	<u>176,710</u>
OPERATING EXPENSES			
Instructional	4,057	0	4,057
Other operating expenses	0	163,341	163,341
Deprecation expense	0	1,910	1,910
TOTAL OPERATING EXPENSES	<u>4,057</u>	<u>165,251</u>	<u>169,308</u>
OPERATING INCOME	<u>0</u>	<u>7,402</u>	<u>7,402</u>
CHANGE IN NET ASSETS	0	7,402	7,402
TOTAL NET ASSETS — BEGINNING	<u>227</u>	<u>3,495</u>	<u>3,722</u>
TOTAL NET ASSETS — ENDING	<u><u>\$ 227</u></u>	<u><u>\$ 10,897</u></u>	<u><u>\$ 11,124</u></u>

SIMPSON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUND
For the Year Ended June 30, 2003

	COMMUNITY EDUCATION	DAY CARE	TOTAL OTHER PROPRIETARY FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	\$ 4,057	\$ 172,653	\$ 176,710
Cash payments to suppliers for goods and services	(4,057)	(2,321)	(6,378)
Cash payments for other operating expenses	0	(163,341)	(163,341)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>0</u>	<u>6,991</u>	<u>6,991</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	0	6,991	6,991
CASH AND CASH EQUIVALENTS — BEGINNING	<u>227</u>	<u>722</u>	<u>949</u>
CASH AND CASH EQUIVALENTS — ENDING	<u><u>\$ 227</u></u>	<u><u>\$ 7,713</u></u>	<u><u>\$ 7,940</u></u>

**RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING
ACTIVITIES**

Operating income	\$ 0	\$ 7,402	\$ 7,402
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	0	1,910	1,910
Changes in assets and liabilities:			
Receivables	0	(2,318)	(2,318)
Accounts payable	0	(3)	(3)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 0</u></u>	<u><u>\$ 6,991</u></u>	<u><u>\$ 6,991</u></u>

SIMPSON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL ACTIVITY FUNDS
June 30, 2003

	<u>BALANCE JULY 1, 2002</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE JUNE 30, 2003</u>
ASSETS				
Cash	\$ 169,711	\$ 752,932	\$ 754,945	\$ 167,698
Accounts receivable	4,000	0	4,000	0
TOTAL ASSETS	<u>\$ 173,711</u>	<u>\$ 752,932</u>	<u>\$ 758,945</u>	<u>\$ 167,698</u>
LIABILITIES				
Accounts payable	\$ 10,389	\$ 8,203	\$ 10,389	\$ 8,203
Due to student groups	163,322	744,729	748,556	159,495
TOTAL LIABILITIES	<u>\$ 173,711</u>	<u>\$ 752,932</u>	<u>\$ 758,945</u>	<u>\$ 167,698</u>

SIMPSON COUNTY SCHOOL DISTRICT
BALANCE SHEET
SCHOOL ACTIVITY FUNDS
FRANKLIN-SIMPSON HIGH SCHOOL
June 30, 2003

	CASH BALANCES JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
Academic Team	\$ 1,693	\$ 0	\$ 0	\$ 1,693
Annual	9,246	0	0	9,246
Agriproduce	2,431	0	0	2,431
Athletics	981	0	1,666	(685)
Band	82	0	0	82
Beta	2,587	0	0	2,587
Bookstore	287	0	0	287
Chorus	1,500	0	0	1,500
Concessions	424	0	0	424
FBLA	2,340	0	0	2,340
FCCLA	748	0	0	748
FCA	962	0	0	962
Future Educators Assoc.	500	0	0	500
Future Farmers	2,759	0	0	2,759
Freshmen	492	0	0	492
Fund raising	1,427	0	0	1,427
General	12,153	0	0	12,153
HOSA	664	0	0	664
Horticulture	16,055	0	0	16,055
Journalism	160	0	0	160
Juniors	465	0	0	465
Project Graduation	111	0	0	111
Renaissance Club	625	0	0	625
SADD	1,149	0	0	1,149
Student Fees	3,755	0	0	3,755
Sophomores	2,283	0	0	2,283
Spanish Club	42	0	0	42
Seniors	699	0	0	699
Student Council	959	0	0	959
Teacher's Grants	73	0	0	73
Theater/Speech Team	1,621	0	0	1,621
Teachers' Vending	3,583	0	0	3,583
Vending	18,991	0	4,003	14,988
VICA	1,019	0	0	1,019
Video Prod	814	0	0	814
TOTAL	\$ 93,680	\$ 0	\$ 5,669	\$ 88,011

SIMPSON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	0575-00-05	\$ 112,959
National School Lunch Program	10.555	0575-00-02	359,768
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.555	—	75,949
Enhancing Agriculture Education	10.226	—	25,000
TOTAL U.S. DEPARTMENT OF AGRICULTURE			573,676
U.S. DEPARTMENT OF EDUCATION			
Passed-Through State Department of Education:			
Title I — 2003	84.010	0531-03-01	344,054
Title I — 2002	84.010	0531-02-01	81,462
Migrant Education Basic — 2003	84.011	—	1,662
Migrant Education Basic — 2002	84.011	—	14,391
Migrant Education Basic — 2001	84.011	—	3,037
Title VI — Innovative Education Program Strategies — 2002	84.298A	0533-02-02	2,380
Title V — 2003	84.298A	—	15,795
Title II — Dwight D. Eisenhower PD — 2002	84.281A	0530-02-02	144
IDEA — Part B Special Education — 2003	84.027	0581-03-02	320,311
IDEA — Part B Special Education — 2002	84.027	0581-02-02	18,583
IDEA — Part B Preschool — 2003	84.173	0587-03-02	35,865
IDEA — Part B Preschool — 2002	84.173	0587-02-02	5,654
Child Find — 2002	84.027	0581-02-01	360
Child Find — 2001	84.027	0581-01-01	245
RTC — Discretionary — 2003	84.173	0587-03-02	290,499
RTC — Discretionary — 2002	84.173	0587-02-02	56,213
Title VI — Class Size Reduction Program — 2003	84.340	—	211
Title IV — Safe & Drug Free Schools — 2002	84.186A	0530-02-02	9,802
Vocational Education — Carryforward	84.048	5462-00-32	646
Vocational Education — Basic — 2003	84.048	5462-03-32	30,516
Title II-D — Education Technology	84.318	—	11,295
Teacher Quality — 2003	84.367A	—	135,353
Technology Literacy Challenge Fund — 2002	84.318	0736-02-02	3,462

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Passed-Through State Work Force Cabinet:			
Adult Education — State Administration Basic — 2003	84.002	0535-03-02	25,240
Adult Education — State Administration Basic — 2002	84.002	0535-02-02	10,394
Adult Education — Corrections — 2003	84.002	0535-03-04	7,182
Adult Education — Staff Development — 2003	84.002	0535-03-02	1,222
TOTAL U.S. DEPARTMENT OF EDUCATION			1,425,978
CORPORATION FOR NATIONAL SERVICE			
Passed-Through Kentucky Council on Higher Education:			
Kentucky Reads — 2003	94.006	—	540,320
Kentucky Reads — 2002	94.006	—	48,133
TOTAL CORPORATION FOR NATIONAL SERVICE			588,453
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,588,107

SIMPSON COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Simpson County School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

SIMPSON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2003

None.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, Kentucky

We have audited the financial statements of ***Simpson County School District*** (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated September 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements* and Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as 03-01.

927 College Street — P.O. Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 — Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 — Fax: (270) 726-3155
1-888-240-7151

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract—State Audit Requirements*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated September 15, 2003.

This report is intended solely for the information and use of the members of the Board, management, Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
September 15, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, Kentucky

● **Compliance**

We have audited the compliance of ***Simpson County School District*** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and

927 College Street — P.O. Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 — Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 — Fax: (270) 726-3155
1-888-240-7151

perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

● **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District

This report is intended solely for the information and use of the members of the Board, management, Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
September 15, 2003

SIMPSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2003

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified?

☐ Yes ☒ No

Reportable condition(s) identified that
are not considered to be material
weakness(es)?

☐ Yes ☒ None reported

Noncompliance material to financial
statements noted?

☒ Yes ☐ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

☐ Yes ☒ No

Reportable condition(s) identified that
are not considered to be material
weakness(es)?

☐ Yes ☒ None reported

Type of auditors' report issued on compliance
for major programs: unqualified

Any audit findings disclosed that are required
to be reported in accordance with section
510(a) of Circular A-133?

☐ Yes ☒ No

SIMPSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2003

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
94.006	KY Reads
84.027	IDEA B — Basic
84.173	IDEA B — Preschool
84.367	Title VI — Teacher Quality

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

SECTION II — FINANCIAL STATEMENT FINDINGS

03-01: During our procedures on cash deposits, we noted that the District's deposits in the bank were uninsured and uncollateralized in the amount of \$452,110. KRS 41.240 and 160.570 require such deposits to be secured. To safeguard cash deposits properly, management should regularly review and project future collateralization requirements of banks to determine if deposits are secured.

Management Response: In response to the need to safeguard cash deposits properly:

U We will calculate our highest average balance using January & June for collateralization requirements for our bank.

U We will have the bank provide us either a letter of credit or pledge of investment to ensure our deposits are properly secured.

The Director of Finance will contact the bank to facilitate this process and monitor our account to ensure our deposits are secure at all times.

SIMPSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2003

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs.



Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, Kentucky

In planning and performing our audit of the financial statements of ***Simpson County School District*** (the "District") for the year ended June 30, 2003, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated September 15, 2003 contains our report on the District's internal control. This letter does not affect our report dated September 15, 2003 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. As well, this letter does not reflect the many good points of your system.

Holland CPAs, PSC

Russellville, Kentucky
September 15, 2003

927 College Street — P.O. Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 — Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 — Fax: (270) 726-3155
1-888-240-7151

SIMPSON COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2003

● **Bid Law**

- T The Kentucky regulations (KRS 424.260) require the District to advertise for sealed bids for any contract, lease or other agreement for materials; supplies except perishable meat, fish and vegetables; equipment; or for contractual services other than professional, involving an expenditure of more than \$20,000. We noted one exception to the regulation. We recommend all items over \$20,000 to be bid as required by regulations.

● **Central Office**

T *Receipts*

In our inquiry of internal controls, we noted receipts are received by several individuals and not endorsed upon receipt. We suggest one person receive all receipts and make a listing of the receipts. The check should be restrictively endorsed upon receipt. Once the list is complete and checks are endorsed, they can be forwarded to another individual for preparing the deposit. The person making the list of receipts should agree the cancelled deposit to the list of receipts to ensure all monies are properly deposited.

T *Payroll*

The payroll clerk maintains the payroll master file, enters time sheet amounts, and prepares and signs payroll checks. This allows the payroll clerk to have access to the complete payroll cycle. We suggest procedures should be reviewed to find ways to reduce the risk over the payroll cycle.

● **Activity Funds — Individual Schools**

T *Franklin Elementary School*

- During our review of receipts, we noted there was not a copy of receipts on file. The only verification of receipts were reports from the computer. We recommend that a receipt book or a copy of the printed receipt be kept on file in order to trace deposits to receipts.

SIMPSON COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

T Franklin Elementary School (Continued)

- During our review of purchase orders, we noted that receiving documents are not signed when merchandise is received on a consistent basis. We recommend that a receiving report be completed at the time merchandise is received or document the receipt of merchandise on supporting documents.
- Upon review of disbursements, we noted all checks were not supported by purchase orders. According to the prescribed accounting guidelines, to initiate a purchase, a purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated. Before checks are processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice. If a vendor invoice is not available, the disbursement shall be supported by a standard invoice, which must be signed by the payee. We recommend that purchase orders be initiated and the appropriate documentation be attached to each check written.

T Simpson Elementary School

- During our review of purchase orders, we noted that receiving documents are not signed when merchandise is received on a consistent basis. We recommend that a receiving report be completed at the time merchandise is received or document the receipt of merchandise on supporting documents.
- Upon review of disbursements, we noted all checks were not supported by purchase orders. According to the prescribed accounting guidelines, to initiate a purchase, a purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated. Before checks are processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice. If a vendor invoice is not available, the disbursement shall be supported by a standard invoice, which must be signed by the payee. We recommend that purchase orders be initiated and the appropriate documentation be attached to each check written.

SIMPSON COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

T Simpson Elementary School (Continued)

- While testing disbursements, we noted an activity fund had a negative fund balance. After accounts receivables and accounts payables are recorded, no activity fund should have a negative fund balance. Monies from the general fund need to be transferred to reverse the deficit. We recommend the balances in each account be watched closely to prevent further occurrences.

T Franklin–Simpson High School

- In our testing of deposits, we noted deposits are not being made on a timely basis. Large amounts of undeposited cash creates additional risk. We suggest cash receipts of over \$100 should be made on a daily basis.
- During our review of purchase orders, we noted that receiving documents are not signed when merchandise is received on a consistent basis. We recommend that a receiving report be completed at the time merchandise is received or document the receipt of merchandise on supporting documents.
- While testing disbursements, we noted an activity fund had a negative fund balance. After accounts receivables and accounts payables are recorded, no activity fund should have a negative fund balance. Monies from the general fund need to be transferred to reverse the deficit. We recommend the balances in each account be watched closely to prevent further occurrences.

SIMPSON COUNTY SCHOOL DISTRICT

Management Response to Audit Recommendations For Year Ended June 30, 2003

● Bid Law

T The Kentucky regulations (KRS 424.260) require the District to advertise for sealed bids for any contract, lease or other agreement for materials, supplies except perishable meat, fish and vegetables; equipment; or for contractual services other than professional, involving an expenditure of more than \$20,000. We noted one exception to the regulation. We recommend all items over \$20,000 to be bid as required by regulations.

Management Response: This was an over-sight by the Interim Superintendent. This will be scrutinized more in the future.

● Central Office

T Receipts

In our inquiry of internal controls, we noted receipts are received by several individuals and not endorsed upon receipt. We suggest one person receive all receipts and make a listing of the receipts. The check should be restrictively endorsed upon receipt. Once the list is complete and checks are endorsed, they can be forwarded to another individual for preparing the deposit. The person making the list of receipts should agree the cancelled deposit to the list of receipts to ensure all monies are properly deposited.

Management Response: The Secretary to the Superintendent will receive all monies and make a list. She will endorse the checks then forward to the Finance Officer for deposit. Deposit slips will be reviewed and compared to original list by the Secretary to the Superintendent.

T Payroll

The payroll clerk maintains the payroll master file, enters time sheet amounts, and prepares and signs payroll checks. This allows the payroll clerk to have access to the complete payroll cycle. We suggest procedures should be reviewed to find ways to reduce the risk over the payroll cycle.

Management Response: The Business Affairs Director will remove printed checks from the printer and distribute. The Personnel Director will review the payroll register after every payroll is completed.

● **Activity Funds – Individual Schools**

T Franklin Elementary School

- During our review of receipts, we noted there was not a copy of receipts on file. The only verification of receipts were reports from the computer. We recommend that a receipt book or a copy of the printed receipt be kept on file in order to trace deposits to receipts.

Management Response: We had the receipts at the school. We misunderstood what information was being requested.

- During our review of purchase orders, we noted that receiving documents are not signed when merchandise is received on a consistent basis. We recommend that a receiving report be completed at the time merchandise is received or document the receipt of merchandise on supporting documents.

Management Response: Effective immediately, all receiving documents will be signed and dated upon receipt of item.

- Upon review of disbursements, we noted all checks were not supported by purchase orders. According to the prescribed accounting guidelines, to initiate a purchase, a purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated. Before checks are processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice. If a vendor invoice is not available, the disbursement shall be supported by a standard invoice, which must be signed by the payee. We recommend that purchase orders be initiated and the appropriate documentation be attached to each check written.

Management Response: Effective immediately, purchase orders are being filled out and approved to initiate all purchases. All disbursements are supported by a purchase order and appropriate documentation is attached to the check.

T Simpson Elementary School

- During our review of purchase orders, we noted that receiving documents are not signed when merchandise is received on a consistent basis. We recommend that a receiving report be completed at the time merchandise is received or document the receipt of merchandise on supporting documents.

Management Response: Effective immediately, all receiving documents will be signed and dated upon receipt of item.

- Upon review of disbursements, we noted all checks were not supported by purchase orders. According to the prescribed accounting guidelines, to initiate a purchase, a purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated. Before checks are processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice. If a vendor invoice is not available, the disbursement shall be supported by a standard invoice, which must be signed by the payee. We recommend that purchase orders be initiated and the appropriate documentation be attached to each check written.

Management Response: Effective immediately, purchase orders are being filled out and approved to initiate all purchases. All disbursements are supported by a purchase order and appropriate documentation is attached to the check.

- While testing disbursements, we noted an activity fund had a negative fund balance. After accounts receivables and accounts payables are recorded, no activity fund should have a negative fund balance. Monies from the general fund need to be transferred to reverse the deficit. We recommend the balances in each account be watched closely to prevent further occurrences.

Management Response: Effective immediately, money will be collected in advance of ordering any merchandise. (i.e. music account-student recorders)

T Franklin-Simpson High School

- In our testing of deposits, we noted deposits are not being made on a timely basis. Large amounts of undeposited cash creates additional risk. We suggest cash receipts of over \$100 should be made on a daily basis.

Management Response: The former bookkeeper (who worked through the first three months of last year) did not always make timely deposits. While cash was not routinely left at school (it was usually being held in the night depository at the bank), she did not always pick up the money and formalize the deposit in a timely manner. The principal and current bookkeeper are unaware of any deposits which have not been on a timely basis during the nine months of last year which she served. We intend to see that this positive trend continues.

- During our review of purchase orders, we noted that receiving documents are not signed when merchandise is received on a consistent basis. We recommend that a receiving report be completed at the time merchandise is received or document the receipt of merchandise on supporting documents.

Management Response: Most of our experienced staff knew that, when merchandise was received, they were to turn in a signed packing slip, etc. as proof of receipt. With an influx of new-hires over the years, this procedure had not been made clear. This has now been clearly communicated to staff, and we anticipate that this will not be an issue in the future.

- While testing disbursements, we noted an activity fund had a negative fund balance. After accounts receivables and accounts payables are recorded, no activity fund should have a negative fund balance. Monies from the general fund need to be transferred to reverse the deficit. We recommend the balances in each account be watched closely to prevent further occurrences.

Management Response: The principal and bookkeeper are aware that no activity fund may have a negative balance at year's end, and will see (through transfers, as necessary) that this does not occur. It is commonplace for some funds to have considerable initial expenses before their first receipts (e.g., Athletics will make numerous purchases in July and August before the first games in September), but the "negative balances" will be short-lived. Transfers to offset such temporary overages would need to be quickly reversed and would fail to give the principal and bookkeeper truly accurate information on the status of these funds. Transfers will be made during the year when and if it becomes apparent that an account will have a long-term deficit, and again, no account will be allowed to carry a negative balance into the new year.



Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, Kentucky

We have audited the financial statements of ***Simpson County School District*** (the "District") for the year ended June 30, 2003, and have issued our report thereon dated September 15, 2003. Professional standards require that we provide you with the following information related to our audit.

- **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, OMB Circular A-133 and Procedures for Auditing Local School Districts' Fiscal Records**

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

927 College Street — P.O. Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 — Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 — Fax: (270) 726-3155
1-888-240-7151

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

- **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in *Note 1* to the financial statements. As described in *Note 2* to the financial statements, the District changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34 as of July 1, 2002. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you or transactions for which there is a lack of authoritative guidance or consensus.

- **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

- **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Our proposed audit adjustments, that were in our judgment either individually or in the aggregate, which had a significant effect on the District's financial reporting process were recorded by the District. We would be glad to discuss the nature of these adjustments with you. In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

- **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

- **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management of ***Simpson County School District*** and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

SIMPSON COUNTY SCHOOL DISTRICT
AUDIT DIFFERENCE EVALUATION
June 30, 2003

School Food				Effect on Financial Statements — Over (Under) Statement					
WP Ref.	PJE	Description	Amount of Difference	Total Assets	Total Liability	Fund Equity	Revenues	Expenses	Net Income
B-1	1	Additional A/R	\$ 5,938	\$ (5,938)	\$	\$	\$ (5,938)	\$	\$ (5,938)
Net Effect				\$ (5,938)	\$	\$	\$ (5,938)	\$	\$ (5,938)
Financial Statement Totals				\$ 403,049	\$ 39	\$ 403,010	\$ 1,140,040	\$ 1,126,436	\$ 13,604
Net Effect as a % of FS Totals				1.47%	0.00%	0.00%	0.52%	0.00%	43.65%

SIMPSON COUNTY SCHOOL DISTRICT
AUDIT DIFFERENCE EVALUATION
June 30, 2003

General Fund				Effect on Financial Statements — Over (Under) Statement					
WP Ref.	PJE	Description	Amount of Difference	Total Assets	Total Liability	Fund Equity	Revenues	Expenses	Net Income
H-1	2	Additional A/P	\$ 23,518	\$	\$ (23,518)	\$	\$	\$ (23,518)	\$ 23,518
Net Effect				\$	\$ (23,518)	\$	\$	\$ (23,518)	\$ 23,518
Financial Statement Totals				\$ 3,174,988	\$ 124,675	\$ 3,050,313	\$ 15,274,942	\$ 15,032,838	\$ 180,887
Net Effect as a % of FS Totals				0.00%	18.86%	0.00%	0.00%	0.15%	13.00%